LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6167 **NOTE PREPARED:** Jan 17, 2012
BILL NUMBER: HB 1008 **BILL AMENDED:**

SUBJECT: Wind Turbines.

FIRST AUTHOR: Rep. Moseley **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: *Hoosier Heritage Innovative Industry Loan Fund*: This bill establishes the Hoosier Heritage Innovative Industry Loan Fund. It provides that the fund is administered by the Indiana Economic Development Corporation (IEDC). It also transfers $1 M from the Indiana Twenty-first Century Research and Technology Fund to the fund.

Wind Turbine Facility Loan: The bill provides that the IEDC Board may make a loan from the fund to an applicant to establish a facility in Indiana that manufactures or fabricates wind turbines using steel made in the United States. It provides that a loan from the fund is interest free and may be for an amount up to $1 M. It also provides that the term of a loan from the fund may not exceed 20 years.

Reduced Adjusted Gross Income Tax Rate: The bill provides that a taxpayer that establishes a wind turbine facility in Indiana may be eligible for a reduced adjusted gross income tax rate for the first two taxable years that the wind turbine facility is in operation. It provides that a taxpayer must be approved by the IEDC to receive the reduced adjusted gross income tax rate for income derived from the wind turbine facility. It provides that the reduced tax rate equals: (1) 5% of the adjusted gross income derived from the wind turbine facility if the taxpayer is a corporation; or (2) 2.4% of the adjusted gross income derived from the wind turbine facility if the taxpayer is an individual or pass-through entity. The bill also provides that the IEDC must receive competing bids from two different applicants to establish a wind turbine facility in order for the IEDC to approve a reduced adjusted gross income tax rate.

Enhanced EDGE Tax Credits: The bill allows the IEDC to award an additional Economic Development for a Growing Economy (eDGE) tax credit to a wind turbine facility. It provides that the additional tax credit may not exceed 1.6% of the wages attributable to the applicant's project. The bill provides that the duration of the credit may not be more than two taxable years. It provides that in order for an applicant to qualify for the additional tax credit the applicant must: (1) meet the existing requirements to receive an EDGE tax credit; (2) use steel made in the United States to manufacture or fabricate the wind turbines or wind turbine components; and (3) pay employees an average wage that exceeds the average wage of an employee in the county where the wind turbine facility is located by at least 10%. The bill also provides that in order to award an additional EDGE credit, the IEDC must receive at least two competing bids to establish a wind turbine facility from at least two different applicants.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes in this bill concerning wind turbine facilities, such as the reduced AGI tax rates and the enhanced EDGE tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Hoosier Heritage Innovative Industry Loan Fund: This bill establishes the Hoosier Heritage Innovative Industry Loan Fund within the state treasury. The fund would be administered by the IEDC. Under the bill, $1 M would be transferred from the 21st Century Research and Technology Fund to the new fund. Money remaining in the fund at the end of the fiscal year will not revert to the state General Fund.

Wind Turbine Facility Loan: The Hoosier Heritage Innovative Industry Loan Fund would provide interest free loans up to $1 M to an entity that fabricates or manufactures wind turbines or its components using steel made in the United States. The term of the loan from this fund would be for a maximum of 20 years. Loans would be subject to approval by the IEDC Board.

Explanation of State Revenues: *Reduced AGI Tax Rate*: For the first two years that a wind turbine facility is in operation, the state would lose revenue equal to the difference between the current tax rates for these entities and the proposed tax rates provided by this bill. An eligible individual would be taxed at a rate of 2.4%, and corporations would be taxed at a rate of 5%. For individuals, the state would incur a loss of $1 per every $100 in adjusted gross income. The loss for corporate taxpayers would be as follows for every $100 in adjusted gross income:

Fiscal Year	Corporate AGI Tax Rate	State Revenue Loss Per Every $100 in AGI
2013	8.0%	$3.00
2014	7.5%	$2.50
2015	7.0%	$2.00
2016 and after	6.5%	$1.50

The individual AGI tax rate is 3.4% and the corporate AGI tax rate will be phased down to a rate of 6.5% by FY 2016.

Enhanced EDGE Credits: In addition to the EDGE credits granted under current law, this bill provides that a qualified entity may be granted an enhanced EDGE credit equal to 1.6% of the incremental amount of wages subject to tax under current law. The duration of this particular credit would be two years. To qualify, entities must pay employees an average wage that exceeds the average wage of an employee in the county where the wind turbine facility is located by at least 10%. They must also use U.S. steel. If the entity would have chosen to locate in Indiana without this additional credit, the loss to the state would be the amount of the additional credit.

Background Information - EDGE Tax Credits: Under current statute, businesses that create new investment and jobs in Indiana, or undertake projects to retain existing jobs in Indiana, are eligible for EDGE tax credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses.

For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE tax credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE tax credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual and corporate taxes.

EDGE tax credits amounts are determined by the IEDC, and awarded for up to 10 years. EDGE tax credits may be taken against a taxpayer's AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Individual taxpayers claimed about $1 M in EDGE tax credits for tax year 2009. Corporate tax data for tax year 2009 is not yet available. Individual and corporate taxpayers claimed about $45 M in EDGE tax credits for tax year 2008.

Twenty-First Century Research and Technology Fund: The Indiana Twenty-First Century Research and Technology Fund was created in 1999 by the General Assembly. During FY 2011, the Twenty-First Century Research and Technology Fund made investments in 11 Indiana companies totaling $7.95 M through its direct awards program. These awards were matched by $16.35 M in private capital. From 1999 to 2009, the fund made 452 awards totaling $265 M. As of January 16, 2012, the fund had a balance of about $32 M.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; IEDC.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases.

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